

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-75394; File No. SR-FINRA-2015-017)

July 8, 2015

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Establish the Securities Trader and Securities Trader Principal Registration Categories

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on June 29, 2015, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend NASD Rule 1032(f) (Limited Representative—Equity Trader) to replace the Equity Trader registration category and qualification examination (Series 55) with a Securities Trader registration category and qualification examination (Series 57). In addition, the proposed rule change amends NASD Rule 1022(a) (General Securities Principal) to establish a Securities Trader Principal registration category. The proposed rule change also makes technical conforming changes to the Form U4 (Uniform Application for Securities Industry Registration or Transfer).

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FINRA is proposing to replace the current Equity Trader registration category and qualification examination (Series 55) with a Securities Trader registration category and qualification examination (Series 57). FINRA also is proposing to establish a Securities Trader Principal registration category for a principal with supervisory responsibility over securities trading activities.<sup>3</sup> FINRA is expecting the national securities exchanges to file similar proposed rule changes to replace the Proprietary Trader qualification examination (Series 56) with the Securities Trader qualification examination (Series 57) in their respective registration rules relating to securities trading activities. In addition, FINRA is proposing technical conforming changes to the Form U4.

I. Securities Trader Registration Category

As described in greater detail below, FINRA and the national securities exchanges have different qualification standards for individuals engaged in securities trading activities.

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<sup>3</sup> The Commission notes that the term “securities trading activities” or “trading activities,” as used in this filing to describe FINRA’s Equity Traders, proposed Securities Traders, and proposed Securities Trader Principals, refers to the securities trading activities described in NASD Rule 1032(f)(1).

Pursuant to NASD Rule 1032(f), each associated person of a member who is included within the definition of “representative” in NASD Rule 1031 (Registration Requirements) is required to register with FINRA as an Equity Trader if, with respect to transactions in equity (including equity options), preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis or the direct supervision of such activities. There is an exception from the Equity Trader requirement for any associated person of a member whose trading activities are conducted principally on behalf of an investment company that is registered with the SEC pursuant to the Investment Company Act of 1940 and that controls, is controlled by, or is under common control with the member. The Series 55 examination currently qualifies an associated person to function as an Equity Trader. Before registration as an Equity Trader may become effective, the associated person must be registered as either a General Securities Representative (Series 7) or Corporate Securities Representative (Series 62). FINRA does not recognize the Series 56 examination as an acceptable qualification standard for associated persons engaged in securities trading.

In contrast, the exchanges currently use the Series 56 examination as a qualification standard for several registration categories relating to securities trading, including the Proprietary Trader registration category,<sup>4</sup> and most do not recognize the Series 55 examination as an

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<sup>4</sup> For instance, under the rules of the Chicago Board Options Exchange (CBOE), an individual trading permit holder or individual associated person who is engaged in proprietary trading, market-making or effecting transactions on behalf of a broker-dealer is required to register and qualify as a Proprietary Trader. See Interpretation and Policy .08(a)(1) to CBOE Rule 3.6A (Qualification and Registration of Trading Permit Holders and Associated Persons). To qualify as a Proprietary Trader under the CBOE rules, an individual must pass the Series 56 examination or be registered as a General Securities Representative. See Interpretation and Policy .08(b) to CBOE Rule 3.6A.

acceptable qualification standard under their respective registration rules.<sup>5</sup> Unlike the Series 55 examination, there is no prerequisite registration requirement for individuals taking the Series 56 examination. The Series 56 examination is administered by FINRA, but, as noted above, it is not recognized by FINRA as an acceptable qualification examination for associated persons engaged in securities trading. Associated persons of FINRA members are required to pass the Series 55 examination to engage in over-the-counter securities trading. Consequently, individuals engaged in trading activities at broker-dealers are subject to varying qualification requirements depending on whether their activities take place on a securities exchange or over-the-counter. Yet, there is significant overlap in the content of the Series 55 and 56 examinations because the examinations test the core knowledge required of individuals engaged in trading activities as well as the self-regulatory organization (SRO) rules, including trading rules, that are common across SROs.

To eliminate duplication and a fragmented qualification standard for individuals engaged in trading activities, FINRA, in consultation with the national securities exchanges, is proposing to amend NASD Rule 1032(f) to replace the Equity Trader registration category and qualification examination with a Securities Trader registration category and qualification examination. As part of the proposed rule change, FINRA is proposing to develop the Securities Trader qualification examination (Series 57), which will be based on the current job functions of securities traders, including elements of the Series 55 and 56 examination programs,<sup>6</sup> and require

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<sup>5</sup> NASDAQ recognizes the Series 55 examination. Specifically, NASDAQ members that are FINRA members are also subject to the Equity Trader registration requirement with respect to transactions on NASDAQ, and thus must pass the Series 55 qualification examination to engage in such activities. See NASDAQ Rule 1032(f) (Limited Representative—Equity Trader).

<sup>6</sup> The Series 55 examination consists of 100 scored multiple-choice questions and the testing time is 3 hours. The Series 56 examination consists of 100 scored multiple-choice questions and the testing time is 2 hours and 30 minutes. FINRA will develop the Series 57 examination, including the appropriate topics, depth of knowledge, number of

associated persons to pass the Series 57 examination to register as Securities Traders. FINRA understands that the exchanges also plan to replace the Series 56 examination with the Series 57 examination for those registration categories, such as the Proprietary Trader registration category, where the Series 56 is currently an acceptable qualification standard. To provide consistency with the rules of the national securities exchanges and to develop a more tailored examination, FINRA is proposing to eliminate the current prerequisite registration requirement in NASD Rule 1032(f) (General Securities Representative or Corporate Securities Representative prerequisite registration) and, instead, to include in the Series 57 examination the core knowledge portion of the General Securities Representative examination (Series 7).

Further, FINRA is proposing to amend NASD Rule 1032(f) to provide that an associated person registered as a Securities Trader will not be qualified to function in any other registered capacity, unless he or she is qualified and registered in that other registration category. For instance, a person registered as a Securities Trader will not be able to engage in any retail or institutional sales activities, unless he or she is qualified and registered in the appropriate registration category, such as a General Securities Representative.

A person registered as an Equity Trader in the Central Registration Depository (CRD®) system on the effective date of the proposed rule change will be grandfathered as a Securities Trader without having to take any additional examinations and without having to take any other actions. In addition, individuals who were registered as Equity Traders in the CRD system prior to the effective date of the proposed rule change will be eligible to register as Securities Traders without having to take any additional examinations, provided that no more than two years has

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questions, time allotted and passing score, and will file the examination with the SEC as part of a separate proposed rule change.

passed between the date they were last registered as a representative and the date they register as a Securities Trader.<sup>7</sup>

## II. Securities Trader Principal Registration Category

FINRA and the national securities exchanges also have different qualification standards for individuals responsible for the supervision of securities trading activities.

Currently, under FINRA rules, an associated person with direct supervisory responsibility over the securities trading activities set forth in NASD Rule 1032(f) is required to qualify and register as an Equity Trader.<sup>8</sup> However, FINRA rules do not expressly require such persons to register in a specific principal registration category.<sup>9</sup> Conversely, most national securities exchanges expressly require that an individual associated with an exchange member with supervisory responsibility over proprietary trading activities qualify and register as a Proprietary Trader Principal.<sup>10</sup>

To harmonize FINRA rules with the rules of the exchanges regarding the registration and qualification of individuals responsible for supervising securities trading activities, FINRA is

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<sup>7</sup> See NASD Rule 1031(c) (Requirements for Examination on Lapse of Registration).

<sup>8</sup> See NASD Rule 1032(f) and FINRA Rule 3110(a) (Supervisory System).

<sup>9</sup> In general, a General Securities Principal with supervisory responsibility over securities trading activities is currently required to qualify and register as an Equity Trader.

<sup>10</sup> For instance, under CBOE rules, an individual trading permit holder or individual associated person who (1) supervises or monitors proprietary trading, market-making or brokerage activities for broker-dealers; (2) supervises or trains those engaged in proprietary trading, market-making or effecting transactions on behalf of a broker-dealer, with respect to those activities; or (3) is an officer, partner or director of a trading permit holder or organization is required to register and qualify as a Proprietary Trader Principal. See Interpretation and Policy .08(a)(2) to CBOE Rule 3.6A. To qualify for registration as a Proprietary Trader Principal under the CBOE rules, an individual must be registered as a Proprietary Trader and pass the General Securities Principal qualification examination (Series 24) (passing the General Securities Principal Sales Supervisor Module examination (Series 23), in combination with qualification and registration as a General Securities Sales Supervisor (Series 9/10), is an acceptable qualification alternative to the Series 24 examination). See Interpretation and Policy .08(b) to CBOE Rule 3.6A.

proposing to amend NASD Rule 1022(a) to establish a Securities Trader Principal registration category and require each associated person of a member who is included within the definition of “principal” in NASD Rule 1021 (Registration Requirements) with supervisory responsibility over the securities trading activities described in NASD Rule 1032(f) to qualify and register as a Securities Trader Principal. The proposed rule change will also allow FINRA to more easily track principals with supervisory responsibility over securities trading activities. To qualify for registration as a Securities Trader Principal, an individual must be registered as a Securities Trader and pass the General Securities Principal qualification examination. As stated above, FINRA understands that the exchanges plan to replace the Series 56 examination with the Series 57 examination under their respective registration rules. Therefore, the Series 57 examination will also replace the Series 56 examination for those registration categories, such as the Proprietary Trader Principal registration category, where the Series 56 examination is currently an acceptable prerequisite.

A person registering as a Securities Trader Principal will be required to pass the General Securities Principal examination, but will not be eligible to register as a General Securities Principal unless the person passes the appropriate prerequisite examination for General Securities Principal registration, such as the Series 7 examination. Therefore, FINRA is proposing to amend NASD Rule 1022(a) to clarify that a person qualified and registered as a Securities Trader Principal may only have supervisory responsibility over the activities specified in NASD Rule 1032(f), unless such person is separately qualified and registered in another appropriate principal registration category, such as the General Securities Principal registration category. Conversely, the proposed rule change clarifies that a person registered as a General Securities Principal will not be qualified to supervise the trading activities described in NASD

Rule 1032(f), unless he or she qualifies and registers as a Securities Trader (by passing the Series 57 examination) and affirmatively registers as a Securities Trader Principal.

A person registered as a General Securities Principal and an Equity Trader in the CRD system on the effective date of the proposed rule change will be eligible to register as a Securities Trader Principal without having to take any additional examinations. An individual who was registered as a General Securities Principal and an Equity Trader in the CRD system prior to the effective date of the proposed rule change will also be eligible to register as a Securities Trader Principal without having to take any additional examinations, provided that no more than two years has passed between the date they were last registered as a principal and the date they register as a Securities Trader Principal.<sup>11</sup> Members, however, will be required to affirmatively register persons transitioning to the proposed registration category as Securities Trader Principals on or after the effective date of the proposed rule change.

### III. Technical Conforming Changes to the Form U4

As part of the proposed rule change, and in anticipation of the national securities exchanges filing similar proposed rule changes to replace the Series 56 examination with the Series 57 examination in their respective registration rules, FINRA is proposing to amend the Form U4 to replace: (1) the Equity Trader registration category with the Securities Trader registration category as well as references to the Series 55 examination with the Series 57 examination; (2) references to the Series 56 examination with the Series 57 examination; and (3)

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<sup>11</sup> See NASD Rule 1021(c) (Requirements for Examination on Lapse of Registration).



the Proprietary Trader Principal registration category with the Securities Trader Principal registration category.<sup>12</sup>

If the Commission approves the filing, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval, but FINRA intends for the effective date to be January 4, 2016.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>13</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(g)(3) of the Act,<sup>14</sup> which authorizes FINRA to prescribe standards of training, experience, and competence for persons associated with FINRA members.

FINRA believes that the proposed rule change will streamline, and bring consistency and uniformity to, the qualification and registration requirements for individuals engaged in securities trading activities across different markets and for principals responsible for supervising such activities, which will, in turn, improve members' registration and compliance efforts. Further, the proposed rule change's requirement to affirmatively register principals who have supervisory responsibility over trading activities as Securities Trader Principals will enhance

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<sup>12</sup> FINRA will file a separate proposed rule change to amend Section 4(c) of Schedule A to the FINRA By-Laws to establish the fee for the proposed Securities Trader qualification examination.

<sup>13</sup> 15 U.S.C. 78o-3(b)(6).

<sup>14</sup> 15 U.S.C. 78o-3(g)(3).

FINRA's ability to more easily identify and, if necessary, contact those principals with supervisory responsibilities over trading activities.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

FINRA believes that the proposed rule change relating to Securities Traders, which FINRA is filing in anticipation of the exchanges filing similar proposed rule changes to replace the Series 56 examination with the Series 57 examination under their respective registration rules, will reduce the burden on associated persons currently required to be registered as traders by harmonizing the registration requirements for representatives engaged in securities trading activities across different markets. The proposed rule change would further reduce the burden on associated persons in terms of the number of qualification examinations that they would be required to take under FINRA rules to be eligible to engage in securities trading activities in the future. Under FINRA rules, an associated person engaged in securities trading activities is currently required to qualify and register as a General Securities Representative (or Corporate Securities Representative) and an Equity Trader. Under the proposed rule change, associated persons would be eligible to engage in securities trading activities by registering as Securities Traders and passing a single comprehensive qualification examination, the Series 57 examination, rather than having to register in multiple categories and pass multiple qualification examinations as currently required under FINRA rules. This will benefit, on an annual basis, the approximately 1,000 associated persons who currently take the Series 55 examination.

Similar to the proposed rule change relating to Securities Traders, FINRA believes that the proposed rule change relating to Securities Trader Principals will reduce the burden on

associated persons by harmonizing the registration requirements for principals engaged in securities trading activities across different markets. Further, the proposed rule change will reduce the burden on such principals in terms of the number of qualification examinations that they would be required to take under FINRA rules to be eligible to supervise securities trading activities in the future. Under FINRA rules, a General Securities Principal with supervisory responsibility over securities trading activities is currently required to qualify and register as a General Securities Representative (or Corporate Securities Representative) and an Equity Trader, in addition to qualifying and registering as a General Securities Principal. The proposed rule change would reduce the number of qualification examinations that would be required of a principal to be eligible to supervise securities trading activities under FINRA rules, by requiring such principal to register as a Securities Trader and pass the General Securities Principal qualification examination. The individuals that would benefit from the proposed rule change relating to Securities Trader Principals are a subset of the individuals that would benefit from the proposed rule change relating to Securities Traders.

Further, the proposed rule change does not impose any additional examination burdens on persons who are already registered. There is no obligation to take the proposed Series 57 examination in order to continue in their present duties, so the proposed rule change is not expected to disadvantage current registered persons relative to new entrants in this regard.

Moreover, FINRA does not believe that the proposed requirement to affirmatively register current and new principals who have supervisory responsibility over trading activities as Securities Trader Principals would be unduly burdensome for members, and it believes that the benefits of the proposed requirement, including the enhancement of FINRA's ability to promptly

identify and, if necessary, contact those principals with supervisory responsibilities over trading activities, outweigh any additional burden on firms.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2015-017 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2015-017. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should

submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2015-017 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

Brent J. Fields  
Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).